

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                           |  |                  |
|--|---------------------------|--|------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                           | Local Unit Name<br>CITY OF LUNA PIER             | County<br>MONROE |
| Fiscal Year End<br>6/30/2006   | Opinion Date<br>9/26/2006 | Date Audit Report Submitted to State<br>11/28/06 |                  |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

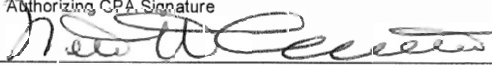
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |                              |
| Other (Describe)   | <input type="checkbox"/>            |  |                              |
| Certified Public Accountant (Firm Name)<br>COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS                                |                                     | Telephone Number<br>734-241-7200           |                              |
| Street Address<br>1 SOUTH MONROE STREET  |                                     | City<br>MONROE                             | State<br>MI                  |
|  |                                     | Zip<br>48161                               |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>PETER H. CARLTON, CPA      | License Number<br>1101009575 |

**CITY OF LUNA PIER**  
Monroe County, Michigan

**ANNUAL FINANCIAL REPORT**

June 30, 2006

# CITY OF LUNA PIER

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**CITY OF LUNA PIER**

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## Independent Auditor's Report

Honorable Mayor and  
Members of City Council  
City of Luna Pier  
Luna Pier, Michigan 48157

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luna Pier, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 through 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and  
Members of City Council  
City of Luna Pier

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luna Pier, Monroe County, Michigan basic financial statements. The comparative and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Cooky Hehl Noblegammith & Caulton".

September 26, 2006

## CITY OF LUNA PIER

### *Management's Discussion and Analysis Year Ended June 30, 2006*

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This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Fund.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Special Road Fund, the Community Development Fund, the Debt Retirement Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

#### Basic Financial Statements

*Government-Wide Financial Statements*      *Fund Financial Statements*

*Notes to the Basic Financial Statements*

*Budgetary Information for Major Funds*  
*(Required Supplemental Information)*

*Other Supplemental Information*

## CITY OF LUNA PIER

### *Management's Discussion and Analysis* *Year Ended June 30, 2006*

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#### **Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities (pages 10-12), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture and recreation. Property taxes, state grants, and charges for services finance most of these activities.

#### **Fund Financial Statements**

The City's Fund Financial Statements (pages 13-20) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

**Governmental funds** - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 14 and 16.

**Proprietary fund** - A Proprietary Fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

**Fiduciary fund** - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.



## CITY OF LUNA PIER

### *Management's Discussion and Analysis* *Year Ended June 30, 2006*

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#### **Financial Highlights**

The following are some of the financial highlights for the 2005-2006 fiscal year:

- ❖ Sold truck terminal and other City owned property for approximately \$150,000 and moved these properties to the tax rolls and eliminated ongoing maintenance of them.
- ❖ Building permit fees were increased in June 2006.
- ❖ The "Pay and Display" parking program was successfully instituted and anticipate it generating greater revenue in the future.
- ❖ The LaPointe drain retaining wall was rehabilitated at a cost of approximately \$206,000.
- ❖ Ann Street was reconstructed for approximately \$36,000, Lakewood Drive was patched for approximately \$54,000, and the Tuxedo Drive drain was reconditioned for approximately \$22,000.
- ❖ Approval was received to clean out the Columbus drain, which has been a source of flooding.
- ❖ A new alarm system was installed in the WWTP to prevent sewer backups.
- ❖ In our ongoing efforts to eliminate blight from our City, we demolished a house on Third Street.
- ❖ We re-roofed the Water Tower Park pavilion and painted it along with the City Hall and the Fire Hall.
- ❖ We received a grant to purchase two digital video systems for our police cruisers and purchased a new computer server to backup and protect City files.
- ❖ Expenditure reductions instituted at the end of the prior year have had a positive affect on the financial condition of the General Fund.

# CITY OF LUNA PIER

## Management's Discussion and Analysis Year Ended June 30, 2006

### Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2006 and 2005:

**Table 1:**

### Comparative Statement of Net Assets June 30,

|                                     | Governmental<br>Activities |                    | Business-Type<br>Activities |                    | Total              |                    |
|-------------------------------------|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
|                                     | 2006                       | 2005               | 2006                        | 2005               | 2006               | 2005               |
| Current and other assets            | \$1,963,481                | \$1,837,875        | \$156,799                   | \$171,911          | \$2,120,280        | \$2,009,786        |
| Capital assets, net                 | 1,134,941                  | 1,056,521          | 1,904,262                   | 1,947,092          | 3,039,203          | 3,003,613          |
| <b>Total Assets</b>                 | <b>3,098,422</b>           | <b>2,894,396</b>   | <b>2,061,061</b>            | <b>2,119,003</b>   | <b>5,159,483</b>   | <b>5,013,399</b>   |
| Current and other liabilities       | 29,329                     | 34,300             | 0                           | 3,847              | 29,329             | 38,147             |
| Long-term liabilities               | 138,141                    | 232,581            | 0                           | 0                  | 138,141            | 232,581            |
| <b>Total Liabilities</b>            | <b>167,470</b>             | <b>266,881</b>     | <b>0</b>                    | <b>3,847</b>       | <b>167,470</b>     | <b>270,728</b>     |
| <b>Net Assets</b>                   |                            |                    |                             |                    |                    |                    |
| Invested in capital                 |                            |                    |                             |                    |                    |                    |
| assets, net of related debt         | 1,050,115                  | 889,439            | 1,904,262                   | 1,947,092          | 2,954,377          | 2,836,531          |
| Restricted for highways and streets | 517,688                    | 590,581            | 0                           | 0                  | 517,688            | 590,581            |
| Restricted for debt service         | 3,728                      | 4,424              | 0                           | 0                  | 3,728              | 4,424              |
| Restricted for flood control        | 348,648                    | 425,876            | 0                           | 0                  | 348,648            | 425,876            |
| Restricted for fire protection      | 6,113                      | 1,356              | 0                           | 0                  | 6,113              | 1,356              |
| Unrestricted                        | 1,004,660                  | 715,839            | 156,799                     | 168,064            | 1,161,459          | 883,903            |
| <b>Total Net Assets</b>             | <b>\$2,930,952</b>         | <b>\$2,627,515</b> | <b>\$2,061,061</b>          | <b>\$2,115,156</b> | <b>\$4,992,013</b> | <b>\$4,742,671</b> |

As depicted in Table 1, the City's net assets were \$5.0 million at June 30, 2006. Of this amount, a positive \$1,161,459 was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities we could with our current resources. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

**CITY OF LUNA PIER**

*Management's Discussion and Analysis  
Year Ended June 30, 2006*

**Government-Wide Financial Analysis - Concluded**

**Table 2:**

**Comparative Statement of Changes in Net Assets  
Year Ended June 30,**

|   | Governmental<br>Activities |                  | Business-Type<br>Activities |                   | Total            |                  |
|---|----------------------------|------------------|-----------------------------|-------------------|------------------|------------------|
|   | 2006                       | 2005             | 2006                        | 2005              | 2006             | 2005             |
| <b>Revenues</b>                             |                            |                  |                             |                   |                  |                  |
| Program revenues                            |                            |                  |                             |                   |                  |                  |
| Charges for services                        | \$115,317                  | \$137,462        | \$194,784                   | \$197,674         | \$310,101        | \$335,136        |
| Federal and state grants                    | 144,715                    | 280,019          | 0                           | 0                 | 144,715          | 280,019          |
|   | <u>260,032</u>             | <u>417,481</u>   | <u>194,784</u>              | <u>197,674</u>    | <u>454,816</u>   | <u>615,155</u>   |
| General revenues                            |                            |                  |                             |                   |                  |                  |
| Property taxes                              | 1,094,852                  | 965,509          | 0                           | 0                 | 1,094,852        | 965,509          |
| State grants                                | 128,942                    | 130,423          | 0                           | 0                 | 128,942          | 130,423          |
| Other general revenues<br>and transfers out | 156,303                    | 198,872          | 75,932                      | 69,342            | 232,235          | 268,214          |
|   | <u>1,380,097</u>           | <u>1,294,804</u> | <u>75,932</u>               | <u>69,342</u>     | <u>1,456,029</u> | <u>1,364,146</u> |
| Total Revenues                              | 1,640,129                  | 1,712,285        | 270,716                     | 267,016           | 1,910,845        | 1,979,301        |
| <b>Functions/Program Expenses</b>           |                            |                  |                             |                   |                  |                  |
| Legislative                                 | 5,191                      | 4,400            | 0                           | 0                 | 5,191            | 4,400            |
| General government                          | 228,417                    | 217,874          | 0                           | 0                 | 228,417          | 217,874          |
| Public safety                               | 350,439                    | 347,649          | 0                           | 0                 | 350,439          | 347,649          |
| Public works                                | 326,249                    | 294,578          | 0                           | 0                 | 326,249          | 294,578          |
| Recreation and cultural                     | 43,451                     | 42,739           | 0                           | 0                 | 43,451           | 42,739           |
| Interest on long-term debt                  | 5,114                      | 3,363            | 0                           | 0                 | 5,114            | 3,363            |
| Other                                       | 377,831                    | 363,068          | 0                           | 0                 | 377,831          | 363,068          |
| Waste Water Treatment Plant                 | 0                          | 0                | 324,811                     | 311,098           | 324,811          | 311,098          |
| Total Expenses                              | <u>1,336,692</u>           | <u>1,273,671</u> | <u>324,811</u>              | <u>311,098</u>    | <u>1,661,503</u> | <u>1,584,769</u> |
| <b>Increase (Decrease) in Net Assets</b>    | <u>\$303,437</u>           | <u>\$438,614</u> | <u>(\$54,095)</u>           | <u>(\$44,082)</u> | <u>\$249,342</u> | <u>\$394,532</u> |

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.7 million. Of this amount, \$0.5 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced an increase in net assets of \$249,342. The increase in net assets differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net assets appears on page 16.

## CITY OF LUNA PIER

### *Management's Discussion and Analysis* Year Ended June 30, 2006

#### Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$1.9 million, which is an increase of \$130,154 from last year. The changes by fund types are as follows:

|  | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Funds</u> | <u>Debt<br/>Retirement<br/>Fund</u> | <u>Capital<br/>Projects<br/>Funds</u> | <u>Total</u>              |
|--|-------------------------|--------------------------------------|-------------------------------------|---------------------------------------|---------------------------|
| <b>Fund balances -<br/>Beginning of year</b> | \$471,473               | \$900,446                            | \$4,424                             | \$428,090                             | \$1,804,433               |
| Increase (decrease)                          | <u>289,501</u>          | <u>(85,757)</u>                      | <u>(696)</u>                        | <u>(72,894)</u>                       | <u>130,154</u>            |
| <b>Fund balances –<br/>End of year</b>       | <u><u>\$760,974</u></u> | <u><u>\$814,689</u></u>              | <u><u>\$3,728</u></u>               | <u><u>\$355,196</u></u>               | <u><u>\$1,934,587</u></u> |

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

|                       | <u>June 30, 2006</u>      | <u>June 30, 2005</u>      | <u>Percent<br/>Change</u> |
|-----------------------|---------------------------|---------------------------|---------------------------|
| <b>Revenues</b>       |                           |                           |                           |
| Property taxes        | \$ 912,045                | \$ 791,665                | 15.2 %                    |
| Licenses and permits  | 30,087                    | 42,795                    | (29.7)%                   |
| Federal grants        | 2,338                     | 84,239                    | (97.2)%                   |
| State grants          | 140,418                   | 131,258                   | 7.0 %                     |
| Local grants          | 32,041                    | 93,308                    | (65.7)%                   |
| Charges for services  | 38,765                    | 41,062                    | (5.6)%                    |
| Fines and forfeits    | 4,786                     | 6,595                     | (2.7)%                    |
| Interest              | 33,870                    | 19,518                    | 73.4 %                    |
| Rentals               | 51,982                    | 56,213                    | (7.5)%                    |
| Other                 | <u>170,080</u>            | <u>206,605</u>            | (17.7)%                   |
| <b>Total Revenues</b> | <u><u>\$1,416,412</u></u> | <u><u>\$1,473,258</u></u> | (3.9)%                    |

## CITY OF LUNA PIER

### *Management's Discussion and Analysis* *Year Ended June 30, 2006*

#### **Fund Financial Analysis – Concluded**

|                         | <u>June 30, 2006</u> | <u>June 30, 2005</u> | <u>Percent<br/>Change</u> |
|-------------------------|----------------------|----------------------|---------------------------|
| <b>Expenditures</b>     |                      |                      |                           |
| Legislative             | \$ 5,191             | \$ 4,400             | 18.0 %                    |
| General government      | 195,622              | 212,483              | (7.9)%                    |
| Public safety           | 279,229              | 431,152              | (35.2)%                   |
| Public works            | 157,556              | 223,633              | (29.5)%                   |
| Recreation and cultural | 37,051               | 35,408               | 4.6 %                     |
| Other                   | 377,831              | 363,068              | 4.1 %                     |
| Operating transfers out | 74,431               | 67,852               | 9.7 %                     |
|                         | <u>\$1,126,911</u>   | <u>\$1,347,996</u>   | (16.4)%                   |

#### **General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

**Revenues** - Although no revisions were made to the revenue budget of \$1,751,400, several factors impact the planning of it. The City relies heavily on property taxes to fund General Fund expenditures. Property taxes of \$912,045 (up \$120,380 from the prior year) make up 64% of the General Fund revenues. Consumers Power Company pays approximately 64% of the property taxes. Federal and State revenues, which totaled \$142,756, (down \$72,740 from last year) represented approximately 10% of total revenues. Also during the 2005-06 fiscal year, the City realized a decrease in permit fees and also sold property and equipment for \$152,477. Projected reductions in state-shared revenues, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

**Expenditures** - The original budget of \$1,983,500 was reduced by \$17,339 to \$1,966,161. There were several areas experiencing increases over the prior year, the major ones of which were general government other (\$11,985), general insurance (\$6,420), hospitalization (\$25,443), and refunds (\$16,120). There were several areas experiencing decreases over the prior year, the major ones of which were clerk (\$13,416), treasurer (\$21,769), police department (\$62,429), fire department (\$93,068), public works (\$68,764), and pension (\$15,532). As a result of the City's efforts, the General Fund's fund balance increased this year by \$289,501 as opposed to an increase in the prior year of \$125,262.

## **CITY OF LUNA PIER**

### *Management's Discussion and Analysis Year Ended June 30, 2006*

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#### **Capital Asset and Debt Administration**

##### **Capital Assets**

At June 30, 2006, the City had \$6.0 million invested in a broad range of capital assets, including land, construction in progress, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant, and sewer lines. This amount represents a net increase (including additions and disposals) of \$183,678 from last year. This year's additions of \$268,691 included street construction, a computer server, a parking meter, and a bike path. The City also put a new roof on the water tower, with a total cost of \$6,500. Depreciation for governmental activities totaled \$120,186, and depreciation for business-type activities totaled \$66,154. Detailed information regarding capital assets is included in Note 7 to the financial statements.

##### **Debt Administration**

At June 30, 2006, the City had a loan payable of \$84,826. This is a loan to purchase a fire truck, which will be repaid out of a voted property tax millage. The City also has accrued a liability for unused vacation and personal days, which totaled \$53,315 at June 30, 2006. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

#### **Development of the 2006-07 Fiscal Year Budget**

Our elected officials considered many factors when setting the City's 2006-07 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services and the ongoing decline of state revenue sharing. For 2006-07, the City anticipates revising the health insurance program to help reduce the increase in costs, is following through on expenditure reductions started in 2005, is continuing to sell off City owned real estate, and is in the process of implementing a new sewer use rate structure for the City residents and LaSalle Township users for the waste water treatment plant.

#### **Contacting the City of Luna Pier**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

# CITY OF LUNA PIER

## *Statement of Net Assets* *June 30, 2006*

|   | Governmental<br>Activities | Business-type<br>Activities | Total                  |
|---|----------------------------|-----------------------------|------------------------|
| <b>Assets</b>                                   |                            |                             |                        |
| Cash and cash equivalents                       | \$1,763,626                | \$12,869                    | \$1,776,495            |
| Accounts/loans receivable                       | 98,304                     | 136,988                     | 235,292                |
| Due from other governmental units               | 58,024                     | 0                           | 58,024                 |
| Prepaid expenses                                | 43,527                     | 6,942                       | 50,469                 |
| Depreciable capital assets, net                 | 1,134,941                  | 1,904,262                   | 3,039,203              |
| <br>Total Assets                                | <br>3,098,422              | <br>2,061,061               | <br>5,159,483          |
| <b>Liabilities</b>                              |                            |                             |                        |
| Accounts payable                                | 13,468                     | 0                           | 13,468                 |
| Other liabilities                               | 435                        | 0                           | 435                    |
| Deferred revenue                                | 15,426                     | 0                           | 15,426                 |
| Long-term liabilities:                          |                            |                             |                        |
| Due within one year                             | 84,826                     | 0                           | 84,826                 |
| Due in more than one year                       | 53,315                     | 0                           | 53,315                 |
| <br>Total Liabilities                           | <br>167,470                | <br>0                       | <br>167,470            |
| <b>Net Assets</b>                               |                            |                             |                        |
| Invested in capital assets, net of related debt | 1,050,115                  | 1,904,262                   | 2,954,377              |
| Restricted:                                     |                            |                             |                        |
| Restricted for highways and streets             | 517,688                    | 0                           | 517,688                |
| Restricted for debt service                     | 3,728                      | 0                           | 3,728                  |
| Restricted for flood control                    | 348,648                    | 0                           | 348,648                |
| Restricted for fire protection                  | 6,113                      | 0                           | 6,113                  |
| Unrestricted                                    | 1,004,660                  | 156,799                     | 1,161,459              |
| <br>Total Net Assets                            | <br><u>\$2,930,952</u>     | <br><u>\$2,061,061</u>      | <br><u>\$4,992,013</u> |

See accompanying notes to the basic financial statements.

**CITY OF LUNA PIER**

*Statement of Activities  
Year Ended June 30, 2006*

| Functions/Programs             | Expenses           | Program Revenues        |  |  |
|--------------------------------|--------------------|-------------------------|--|--|
|                                |                    | Charges<br>for Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |
| Primary government -           |                    |                         |  |  |
| Governmental activities:       |                    |                         |  |  |
| Legislative                    | \$5,191            | \$0                     | \$0                                      | \$0                                    |
| General government             | 228,417            | 56,350                  | 0  | 0                                      |
| Public safety                  | 350,439            | 34,873                  | 4,004                                    | 9,810                                  |
| Public works                   | 326,249            | 20,782                  | 98,860                                   | 32,041                                 |
| Recreation and cultural        | 43,451             | 0                       | 0  | 0                                      |
| Interest on long-term debt     | 5,114              | 535                     | 0  | 0                                      |
| Other                          | 377,831            | 2,777                   | 0  | 0                                      |
| Total Governmental Activities  | 1,336,692          | 115,317                 | 102,864                                  | 41,851                                 |
| Business-type activities:      |                    |                         |  |  |
| Waste water treatment plant    | 324,811            | 194,784                 | 0  | 0                                      |
| Total business type activities | 324,811            | 194,784                 | 0  | 0                                      |
| Total primary government       | <u>\$1,661,503</u> | <u>\$310,101</u>        | <u>\$102,864</u>                         | <u>\$41,851</u>                        |

General Revenues:

Property taxes  
State grants  
Gain on sale of assets  
Interest and investment earnings  
Other  
Transfers

**Change in Net Assets**

Net Assets - Beginning of year

Net Assets - End of year

See accompanying notes to the basic financial statements.



| Net (Expense) Revenue and<br>Changes in Net Assets<br>Primary Government |                             |             |
|--|-----------------------------|-------------|
| Governmental<br>Activities   | Business-type<br>Activities | Total       |
| (\$5,191)  | \$0                         | (\$5,191)   |
| (172,067)  | 0                           | (172,067)   |
| (301,752)  | 0                           | (301,752)   |
| (174,566)  | 0                           | (174,566)   |
| (43,451)   | 0                           | (43,451)    |
| (4,579)  | 0                           | (4,579)     |
| (375,054)  | 0                           | (375,054)   |
| (1,076,660)  | 0                           | (1,076,660) |
| 0  | (130,027)                   | (130,027)   |
| 0  | (130,027)                   | (130,027)   |
| (1,076,660)  | (130,027)                   | (1,206,687) |
| 1,094,852  | 0                           | 1,094,852   |
| 128,942  | 0                           | 128,942     |
| 105,716  | 0                           | 105,716     |
| 77,355   | 1,501                       | 78,856      |
| 47,663   | 0                           | 47,663      |
| (74,431)   | 74,431                      | 0           |
| 1,380,097  | 75,932                      | 1,456,029   |
| 303,437  | (54,095)                    | 249,342     |
| 2,627,515  | 2,115,156                   | 4,742,671   |
| \$2,930,952  | \$2,061,061                 | \$4,992,013 |

# CITY OF LUNA PIER

## *Governmental Funds Balance Sheet June 30, 2006*

|   | Special Revenue Funds |                   |                   |
|---|-----------------------|-------------------|-------------------|
|   | General Fund          | Major Street Fund | Local Street Fund |
| <b>Assets</b>                           |                       |                   |                   |
| Cash and investments                    | \$661,748             | \$451,615         | \$41,964          |
| Accounts/loans receivable               | 844                   | 0                 | 0                 |
| Due from other governmental units       | 55,732                | 0                 | 0                 |
| Due from other funds                    | 35,038                | 0                 | 14,895            |
| Prepaid expense                         | 43,527                | 0                 | 0                 |
| <br>Total Assets                        | <br>\$796,889         | <br>\$451,615     | <br>\$56,859      |
| <b>Liabilities and Fund Balances</b>    |                       |                   |                   |
| <b>Liabilities</b>                      |                       |                   |                   |
| Accounts payable                        | \$8,492               | \$0               | \$0               |
| Due to other funds                      | 11,997                | 26,853            | 23,080            |
| Deferred revenue                        | 15,426                | 0                 | 0                 |
| <br>Total Liabilities                   | <br>35,915            | <br>26,853        | <br>23,080        |
| <b>Fund Balances</b>                    |                       |                   |                   |
| Reserved for prepaid expenses           | 43,527                | 0                 | 0                 |
| Reserved for noncurrent receivables     | 0                     | 0                 | 0                 |
| Reserved for debt service               | 0                     | 0                 | 0                 |
| Unreserved:                             |                       |                   |                   |
| Designated for special projects         | 241,505               | 0                 | 0                 |
| Undesignated, reported in:              |                       |                   |                   |
| General Fund                            | 475,942               | 0                 | 0                 |
| Special Revenue Funds                   | 0                     | 424,762           | 33,779            |
| Capital Projects Funds                  | 0                     | 0                 | 0                 |
| <br>Total Fund Balances                 | <br>760,974           | <br>424,762       | <br>33,779        |
| <br>Total Liabilities and Fund Balances | <br>\$796,889         | <br>\$451,615     | <br>\$56,859      |

See accompanying notes to the basic financial statements.

| Special Road<br>Fund | Community<br>Development<br>Fund | Debt<br>Retirement<br>Fund | Capital Project Funds               |                      | Total<br>Governmental<br>Funds |
|----------------------|----------------------------------|----------------------------|-------------------------------------|----------------------|--------------------------------|
|                      |                                  |                            | Flood Control<br>Facilities<br>Fund | Fire Millage<br>Fund |                                |
| \$59,147             | \$188,541                        | \$3,728                    | \$352,662                           | \$4,221              | \$1,763,626                    |
| 0                    | 97,460                           | 0                          | 0                                   | 0                    | 98,304                         |
| 0                    | 0                                | 0                          | 1,146                               | 1,146                | 58,024                         |
| 0                    | 11,000                           | 0                          | 0                                   | 1,181                | 62,114                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 43,527                         |
| <u>\$59,147</u>      | <u>\$297,001</u>                 | <u>\$3,728</u>             | <u>\$353,808</u>                    | <u>\$6,548</u>       | <u>\$2,025,595</u>             |
| \$0                  | \$0                              | \$0                        | \$4,976                             | \$0                  | \$13,468                       |
| 0                    | 0                                | 0                          | 184                                 | 0                    | 62,114                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 15,426                         |
| 0                    | 0                                | 0                          | 5,160                               | 0                    | 91,008                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 43,527                         |
| 0                    | 93,888                           | 0                          | 0                                   | 0                    | 93,888                         |
| 0                    | 0                                | 3,728                      | 0                                   | 0                    | 3,728                          |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 241,505                        |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 475,942                        |
| 59,147               | 203,113                          | 0                          | 0                                   | 0                    | 720,801                        |
| 0                    | 0                                | 0                          | 348,648                             | 6,548                | 355,196                        |
| <u>59,147</u>        | <u>297,001</u>                   | <u>3,728</u>               | <u>348,648</u>                      | <u>6,548</u>         | <u>1,934,587</u>               |
| <u>\$59,147</u>      | <u>\$297,001</u>                 | <u>\$3,728</u>             | <u>\$353,808</u>                    | <u>\$6,548</u>       | <u>\$2,025,595</u>             |

**CITY OF LUNA PIER**

*Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
Year Ended June 30, 2006*

|   |                    |                           |
|---|--------------------|---------------------------|
| <b>Total Fund Balances - Governmental Funds</b>   |                    | <b>\$1,934,587</b>        |
| Amounts reported for governmental activities in the statement of net assets are different because:            |                    |                           |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: |                    |                           |
| Cost of the capital assets  | \$2,462,268        |                           |
| Accumulated depreciation  | <u>(1,327,327)</u> |                           |
|   |                    | 1,134,941                 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds:        |                    |                           |
| Loans payable   | (84,826)           |                           |
| Compensated absences  | (53,315)           |                           |
| Accrued interest  | <u>(435)</u>       |                           |
|   |                    | <u>(138,576)</u>          |
| <b>Total Net Assets - Governmental Activities</b>   |                    | <b><u>\$2,930,952</u></b> |

See accompanying notes to the basic financial statements.

# CITY OF LUNA PIER

## Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

|  |              | Special Revenue Funds |                   |
|--|--------------|-----------------------|-------------------|
|  | General Fund | Major Street Fund     | Local Street Fund |
| <b>Revenues</b>                                      |              |                       |                   |
| Taxes  | \$912,045    | \$0                   | \$0               |
| Licenses and permits                                 | 30,087       | 0                     | 0                 |
| Federal grants                                       | 2,338        | 0                     | 0                 |
| State grants   | 140,418      | 61,354                | 37,506            |
| Local grants   | 32,041       | 0                     | 0                 |
| Charges for services                                 | 38,765       | 0                     | 0                 |
| Fines and forfeits                                   | 4,786        | 0                     | 0                 |
| Interest income                                      | 33,870       | 14,930                | 2,574             |
| Rentals  | 51,982       | 0                     | 0                 |
| Other revenue  | 170,080      | 0                     | 0                 |
| Total Revenues                                       | 1,416,412    | 76,284                | 40,080            |
| <b>Expenditures</b>                                  |              |                       |                   |
| Current Operating:                                   |              |                       |                   |
| Legislative  | 5,191        | 0                     | 0                 |
| General government                                   | 195,622      | 0                     | 0                 |
| Public safety  | 279,229      | 0                     | 0                 |
| Public works   | 157,556      | 20,099                | 169,480           |
| Recreation and cultural                              | 37,051       | 0                     | 0                 |
| Other  | 377,831      | 0                     | 0                 |
| Debt service   | 0            | 0                     | 0                 |
| Total Expenditures                                   | 1,052,480    | 20,099                | 169,480           |
| Excess (Deficiency) of Revenues<br>Over Expenditures | 363,932      | 56,185                | (129,400)         |
| <b>Other Financing Sources (Uses)</b>                |              |                       |                   |
| Operating transfers in                               | 0            | 0                     | 14,895            |
| Operating transfers out                              | (74,431)     | (14,895)              | 0                 |
| Total Other Financing<br>Sources (Uses)              | (74,431)     | (14,895)              | 14,895            |
| <b>Net Change in Fund Balances</b>                   | 289,501      | 41,290                | (114,505)         |
| Fund Balances - Beginning of year                    | 471,473      | 383,472               | 148,284           |
| Fund Balances - End of year                          | \$760,974    | \$424,762             | \$33,779          |

See accompanying notes to the basic financial statements.

| Special Road<br>Fund | Community<br>Development<br>Fund | Debt<br>Retirement<br>Fund | Capital Projects Funds              |                      | Total<br>Governmental<br>Funds |
|----------------------|----------------------------------|----------------------------|-------------------------------------|----------------------|--------------------------------|
|                      |                                  |                            | Flood Control<br>Facilities<br>Fund | Fire Millage<br>Fund |                                |
| \$0                  | \$0                              | \$0                        | \$91,389                            | \$91,418             | \$1,094,852                    |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 30,087                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 2,338                          |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 239,278                        |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 32,041                         |
| 0                    | 0                                | 18,260                     | 0                                   | 0                    | 57,025                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 4,786                          |
| 822                  | 7,592                            | 11                         | 17,386                              | 170                  | 77,355                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 51,982                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 170,080                        |
| 822                  | 7,592                            | 18,271                     | 108,775                             | 91,588               | 1,759,824                      |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 5,191                          |
| 0                    | 20,456                           | 700                        | 0                                   | 0                    | 216,778                        |
| 0                    | 0                                | 0                          | 0                                   | 3                    | 279,232                        |
| 500                  | 0                                | 0                          | 186,003                             | 0                    | 533,638                        |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 37,051                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 377,831                        |
| 0                    | 0                                | 18,267                     | 0                                   | 87,251               | 105,518                        |
| 500                  | 20,456                           | 18,967                     | 186,003                             | 87,254               | 1,555,239                      |
| 322                  | (12,864)                         | (696)                      | (77,228)                            | 4,334                | 204,585                        |
| 0                    | 0                                | 0                          | 0                                   | 0                    | 14,895                         |
| 0                    | 0                                | 0                          | 0                                   | 0                    | (89,326)                       |
| 0                    | 0                                | 0                          | 0                                   | 0                    | (74,431)                       |
| 322                  | (12,864)                         | (696)                      | (77,228)                            | 4,334                | 130,154                        |
| 58,825               | 309,865                          | 4,424                      | 425,876                             | 2,214                | 1,804,433                      |
| \$59,147             | \$297,001                        | \$3,728                    | \$348,648                           | \$6,548              | \$1,934,587                    |

**CITY OF LUNA PIER**

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2006*

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**Total Net Change in Fund Balances - Governmental Funds** **\$130,154**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated over their  
estimated useful lives as depreciation:

|                               |                 |        |
|-------------------------------|-----------------|--------|
| Depreciation expense          | (\$120,186)     |        |
| Capital outlay                | 245,367         |        |
| Net book value of assets sold | <u>(46,761)</u> |        |
|                               |                 | 78,420 |

Accrued interest is recorded in the statement of activities when incurred;  
it is not reported in the governmental funds until paid 423

Repayments of bond and loan principal is an expenditure in the governmental  
funds; but not in the statement of activities (where it reduces long-term debt) 101,478

Increases in the liability for compensated absences are reported as  
expenditures in the statement of activities; but not in the  
governmental funds (7,038)

**Change in Net Assets of Governmental Activities** \$303,437

See accompanying notes to the basic financial statements.

# CITY OF LUNA PIER

## *Proprietary Fund Statement of Net Assets June 30, 2006*

|   | Business-type<br>Activities<br>Enterprise Fund<br>Waste Water<br>Treatment<br>Plant Fund |
|---|--|
| <b>Assets</b>                                   |  |
| Current Assets:                                 |  |
| Cash  | \$12,869   |
| Receivables                                     | 136,988  |
| Prepaid expenses                                | 6,942  |
| Total Current Assets                            | <u>156,799</u>   |
| Capital Assets                                  | 3,603,762  |
| Less: Allowance for depreciation                | (1,699,500)  |
| Total Capital Assets                            | <u>1,904,262</u>   |
| Total Assets                                    | <u>2,061,061</u>   |
| <b>Liabilities</b>                              |  |
| Current Liabilities:                            |  |
| Accounts payable                                | <u>0</u>   |
| Total Liabilities                               | <u>0</u>   |
| <b>Net Assets</b>                               |  |
| Invested in capital assets, net of related debt | 1,904,262  |
| Unrestricted                                    | <u>156,799</u>   |
| Total Net Assets                                | <u><u>\$2,061,061</u></u>  |

See accompanying notes to the basic financial statements.



# CITY OF LUNA PIER

## *Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2006*

|  | Business-type<br>Activities<br>Enterprise Fund<br>Waste Water<br>Treatment<br>Plant Fund |
|--|--|
| <b>Operating Revenues</b>                |  |
| Charges for services                     | \$188,536  |
| Other revenue                            | 2,597  |
| Permits                                  | 2,240  |
| Penalties                                | 1,411  |
| Total Operating Revenues                 | 194,784  |
| <b>Operating Expenses</b>                |  |
| Sewer processing and maintenance         | 319,971  |
| Administration                           | 4,840  |
| Total Operating Expenses                 | 324,811  |
| Net Operating Income (Loss)              | (130,027)  |
| <b>Non-Operating Revenues (Expenses)</b> |  |
| Interest income                          | 1,501  |
| Net Income (Loss) Before Transfers       | (128,526)  |
| Transfers in                             | 74,431   |
| <b>Change in Net Assets</b>              | (54,095)   |
| Net Assets - Beginning of year           | 2,115,156  |
| Net Assets - End of year                 | \$2,061,061  |

See accompanying notes to the basic financial statements.

# CITY OF LUNA PIER

## *Proprietary Fund Statement of Cash Flows Year Ended June 30, 2006*

|  | Business-type<br>Activities<br>Enterprise Fund<br>Waste Water<br>Treatment<br>Plant Fund |
|--|--|
| <b>Cash Flows from Operating Activities</b>  |  |
| Receipts from customers  | \$190,568  |
| Payments to suppliers  | (177,401)  |
| Payments to employees  | (87,025)   |
| Net cash provided by operating activities  | (73,858)   |
| <b>Cash Flows from Noncapital Financing Activities</b>                                     |  |
| Transfers in   | 74,431   |
| <b>Cash Flows from Capital and Related Financing Activities</b>                            |  |
| Purchase of capital assets   | (23,324)   |
| <b>Cash Flows from Investing Activities</b>  |  |
| Interest income  | 1,501  |
| <b>Net Increase (Decrease) in<br/>Cash and Cash Equivalents</b>                            | (21,250)   |
| Cash and Cash Equivalents - Beginning of Year  | 34,119   |
| Cash and Cash Equivalents - End of Year  | \$12,869   |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>     |  |
| Operating income (loss)  | (\$130,027)  |
| Adjustments to reconcile operating income (loss) to net cash<br>from operating activities: |  |
| Depreciation   | 66,154   |
| Changes in operating assets and liabilities  |  |
| Receivables  | (4,215)  |
| Prepaid expenses   | (1,923)  |
| Accounts payable   | (3,847)  |
| Net Cash Provided by Operating Activities  | (\$73,858)   |

See accompanying notes to the basic financial statements.

**CITY OF LUNA PIER**

*Agency Fund  
Statement of Fiduciary Net Assets  
June 30, 2006*

|                                 | <u>Tax Collection<br/>Agency Fund</u> |
|---------------------------------|---------------------------------------|
| <b>Assets</b>                   |                                       |
| Cash                            | <u>\$1,440</u>                        |
| <b>Liabilities</b>              |                                       |
| Due to other taxing units       | \$1,440                               |
| Due to other governmental units | <u>0</u>                              |
| Total Liabilities               | <u>\$1,440</u>                        |

See accompanying notes to the basic financial statements.

## CITY OF LUNA PIER

### *Notes to Financial Statements* *Year Ended June 30, 2006*

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#### Note 1

##### Description of the City and Reporting Entity

The City operates under a locally elected five member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

##### Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, Councils, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has no component units.

The following entities are not included herein as they operate as autonomous units:

##### Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

##### South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

#### Note 2

##### Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Council (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the City's accounting policies.

## CITY OF LUNA PIER

### *Notes to Financial Statements* *Year Ended June 30, 2006*

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#### Note 2      Summary of Significant Accounting Policies (Continued) Basis of Presentation

##### A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

##### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

## CITY OF LUNA PIER

### *Notes to Financial Statements Year Ended June 30, 2006*

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#### Note 2

#### Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

#### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. The General Fund accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Special Road Fund accounts for proceeds from a tax millage for road improvements.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Debt Retirement Fund accounts for monies used to pay general obligation bonds contractually liable by the City to the South County Water System.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City does not have any nonmajor governmental funds.

# CITY OF LUNA PIER

## Notes to Financial Statements Year Ended June 30, 2006

### Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation (Continued)

#### C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and Winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u>                   | <u>Estimated Lives</u> |
|--------------------------------------|------------------------|
| Roads                                | 20 years               |
| Land Improvements                    | 20 years               |
| Buildings and Buildings Improvements | 20-60 years            |
| Machinery and Equipment              | 3-30 years             |
| Vehicles                             | 5-8 years              |
| Sewer Lines                          | 100 years              |

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

## CITY OF LUNA PIER

### *Notes to Financial Statements Year Ended June 30, 2006*

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#### Note 2

#### Summary of Significant Accounting Policies (Continued)

##### Basis of Presentation (Continued)

##### C. Assets, Liabilities, and Net Assets or Equity (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.



# CITY OF LUNA PIER

## Notes to Financial Statements Year Ended June 30, 2006

Note 2      Summary of Significant Accounting Policies (Concluded)  
Basis of Presentation (Concluded)  
F. Budgetary Policies (Concluded)

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

Note 3      Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Debt Retirement Fund and the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2006, expenditures exceeded final budgeted amounts in the following fund:

|                      | <u>Final Budget</u> | <u>Actual Expenditures</u> | <u>Variance</u> |
|----------------------|---------------------|----------------------------|-----------------|
| Debt Retirement Fund | \$15,440            | \$18,967                   | \$(3,527)       |

Note 4      Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

## CITY OF LUNA PIER

### *Notes to Financial Statements Year Ended June 30, 2006*

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#### Note 4

##### Deposits (Concluded)

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2006, the City of Luna Pier had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Council has adopted an investment policy authorizing certain types of investments and authorized two depositories: Monroe Bank and Trust and National City Bank.

*Interest rate risk.* The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy.

*Concentration of credit risk.* The City does not place any limits on the amount the City may deposit or invest in any one issuer.

*Custodial credit risk.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of an outside party. The City has \$1,792,854 invested in certificates of deposit, checking accounts, and money markets. The City's deposits are insured by the FDIC in the amount of \$100,000, with uninsured deposits of \$1,692,854. The City's deposits are at institutions with an established record of fiscal health and service. The City Council approves and designates a list of authorized depository institutions. The City's investment policy does not address deposit risk.

*Foreign currency risk.* The City is not authorized to invest in investments which have this type of risk.

# CITY OF LUNA PIER

## Notes to Financial Statements Year Ended June 30, 2006

### Note 5      Interfund Payables and Receivables

Such balances at June 30, 2006 were:

|                              | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> |
|------------------------------|---------------------------------|------------------------------|
| General Fund:                |                                 |                              |
| Major Street Fund            | \$11,958                        | \$ -                         |
| Local Street Fund            | 23,080                          | -                            |
| Community Development Fund   | -                               | 11,000                       |
| Fire Millage Fund            | -                               | 997                          |
| Major Street Fund:           |                                 |                              |
| General Fund                 | -                               | 11,958                       |
| Local Street Fund            | -                               | 14,895                       |
| Local Street Fund:           |                                 |                              |
| General Fund                 | -                               | 23,080                       |
| Major Street Fund            | 14,895                          | -                            |
| Community Development Fund:  |                                 |                              |
| General Fund                 | 11,000                          | -                            |
| Fire Millage Fund:           |                                 |                              |
| General Fund                 | 997                             | -                            |
| Flood Control Facility Fund  | 184                             | -                            |
| Flood Control Facility Fund: |                                 |                              |
| Fire Fund                    | <u>-</u>                        | <u>184</u>                   |
|                              | <u>\$62,114</u>                 | <u>\$62,114</u>              |

### Note 6      Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2006, consisted of the following:

|                                  | <u>Transfers Out</u>    |                              |                 |
|----------------------------------|-------------------------|------------------------------|-----------------|
|                                  | <u>General<br/>Fund</u> | <u>Major Street<br/>Fund</u> | <u>Total</u>    |
| <u>Transfers In:</u>             |                         |                              |                 |
| Local Street Fund                | \$ -                    | \$14,895                     | \$14,895        |
| Waste Water Treatment Plant Fund | <u>74,431</u>           | <u>-</u>                     | <u>74,431</u>   |
|                                  | <u>\$74,431</u>         | <u>\$14,895</u>              | <u>\$89,326</u> |

The transfers from the Major Street Fund to the Local Street Fund was for local street preservation and maintenance. The transfer from the General Fund to the Waste Water Treatment Plant Fund was to help pay for operation of the waste water plant.

**CITY OF LUNA PIER**

*Notes to Financial Statements  
Year Ended June 30, 2006*

Note 7

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

|                                     | Balance<br>July 1, 2005 | Additions     | Deletions    | Balance<br>June 30, 2006 |
|-------------------------------------|-------------------------|---------------|--------------|--------------------------|
| Governmental Activities             |                         |               |              |                          |
| Assets not being depreciated:       |                         |               |              |                          |
| Land                                | \$11,609                | \$0           | \$8,509      | \$3,100                  |
| Construction in progress            | 16,631                  | 181,838       | 0            | \$198,469                |
|                                     | 28,240                  | 181,838       | 8,509        | 201,569                  |
| Capital assets being depreciated:   |                         |               |              |                          |
| Roads                               | 35,490                  | 39,747        | 0            | 75,237                   |
| Land improvements                   | 260,873                 | 0             | 0            | 260,873                  |
| Buildings and building improvements | 753,843                 | 6,500         | 76,504       | 683,839                  |
| Machinery and equipment             | 479,858                 | 17,282        | 0            | 497,140                  |
| Vehicles                            | 743,610                 | 0             | 0            | 743,610                  |
|                                     | 2,273,674               | 63,529        | 76,504       | 2,260,699                |
| <br>Total capital assets            | <br>2,301,914           | <br>245,367   | <br>85,013   | <br>2,462,268            |
| Less accumulated depreciation:      |                         |               |              |                          |
| Roads                               | (1,774)                 | (3,099)       | 0            | (4,873)                  |
| Land improvements                   | (174,430)               | (9,687)       | 0            | (184,117)                |
| Buildings and building improvements | (346,298)               | (16,237)      | (38,252)     | (324,283)                |
| Machinery and equipment             | (295,212)               | (44,337)      | 0            | (339,549)                |
| Vehicles                            | (427,679)               | (46,826)      | 0            | (474,505)                |
| <br>Total accumulated depreciation  | <br>(1,245,393)         | <br>(120,186) | <br>(38,252) | <br>(1,327,327)          |
| <br>Net capital assets              | <br>\$1,056,521         | <br>\$125,181 | <br>\$46,761 | <br>\$1,134,941          |

Depreciation expense was charged to governmental functions as follows:

|                                   |                      |
|-----------------------------------|----------------------|
| General government                | \$ 13,083            |
| Public safety                     | 80,007               |
| Public works                      | 14,196               |
| Recreation and cultural           | <u>12,900</u>        |
| <br>Total governmental activities | <br><u>\$120,186</u> |

**CITY OF LUNA PIER**

*Notes to Financial Statements  
Year Ended June 30, 2006*

Note 7      Capital Assets (Concluded)

|   | <u>Balance</u><br><u>July 1, 2005</u> | <u>Additions</u>  | <u>Deletions</u> | <u>Balance</u><br><u>June 30, 2006</u> |
|---|---------------------------------------|-------------------|------------------|--|
| Business-type Activities (Waste Water Treatment Plant Fund) |                                       |                   |                  |  |
| Assets not being depreciated:                               |                                       |                   |                  |  |
| Land  | \$6,500                               | \$0               | \$0              | \$6,500                                |
| Capital assets being depreciated:                           |                                       |                   |                  |  |
| Treatment plant   | 1,930,575                             | 0                 | 0                | 1,930,575                              |
| Sewer lines   | 1,051,207                             | 0                 | 0                | 1,051,207                              |
| Machinery and equipment                                     | 575,676                               | 23,324            | 0                | 599,000                                |
| Vehicles  | 16,480                                | 0                 | 0                | 16,480                                 |
|   | <u>3,580,438</u>                      | <u>23,324</u>     | <u>0</u>         | <u>3,603,762</u>                       |
| Total capital assets  | 3,580,438                             | 23,324            | 0                | 3,603,762                              |
| Less accumulated depreciation:                              |                                       |                   |                  |  |
| Treatment plant   | (742,115)                             | (47,021)          | 0                | (789,136)                              |
| Sewer lines   | (336,386)                             | (10,512)          | 0                | (346,898)                              |
| Machinery and equipment                                     | (538,365)                             | (8,621)           | 0                | (546,986)                              |
| Vehicles  | (16,480)                              | 0                 | 0                | (16,480)                               |
|   | <u>(1,633,346)</u>                    | <u>(66,154)</u>   | <u>0</u>         | <u>(1,699,500)</u>                     |
| Total accumulated depreciation                              | (1,633,346)                           | (66,154)          | 0                | (1,699,500)                            |
| Net capital assets  | <u>\$1,947,092</u>                    | <u>(\$42,830)</u> | <u>\$0</u>       | <u>\$1,904,262</u>                     |

Note 8      Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2006:

|                              | <u>Interest</u><br><u>Rate</u> | <u>Date of</u><br><u>Issue</u> | <u>Original</u><br><u>Maturity</u><br><u>Dates</u> | <u>Amount of</u><br><u>Issue</u> | <u>Balance</u><br><u>Outstanding</u> |
|------------------------------|--------------------------------|--------------------------------|--|----------------------------------|--------------------------------------|
| Loan Payable for:            |                                |                                |  |                                  |                                      |
| 2004 KME Pumper              |                                |                                |  |                                  |                                      |
| Fire Truck                   | 3.080%                         | 04/16/04                       | 08/16/04-06  | \$333,815                        | \$ 84,826                            |
| Other Liabilities:           |                                |                                |  |                                  |                                      |
| Compensated Absences Payable |                                |                                |  |                                  | <u>53,315</u>                        |
|                              |                                |                                |  |                                  | <u>\$138,141</u>                     |

# CITY OF LUNA PIER

## Notes to Financial Statements Year Ended June 30, 2006

**Note 8      Long-Term Debt (Concluded)**

Changes in principal during the 2005-06 fiscal period are summarized as follows:

|   | <u>Balance</u><br><u>June 30, 2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u><br><u>June 30, 2006</u> | <u>Due Within</u><br><u>One Year</u> |
|---|--|------------------|-------------------|--|--------------------------------------|
| South County Water<br>System: Phase III<br>Improvements | \$ 19,222                              | \$ -             | \$ 19,222         | \$ -                                   | \$ -                                 |
| 2004 KME Pumper<br>Fire Truck-Loan Payable              | 167,082                                | -                | 82,256            | 84,826                                 | 84,826                               |
| Compensated Absences<br>Payable                         | <u>46,277</u>                          | <u>7,038</u>     | <u>-</u>          | <u>53,315</u>                          | <u>-</u>                             |
|   | <u>\$232,581</u>                       | <u>\$7,038</u>   | <u>\$101,478</u>  | <u>\$138,141</u>                       | <u>\$84,826</u>                      |

South County Water System Bonds - The City has joined with three other municipalities in contracting with the County of Monroe for the construction, financing and operation of a South County Water System. This project was financed by a federal grant and the issuance of County of Monroe bonds. These bonds are to be paid for out of the operating revenue of the water distribution system. However, should operating revenue be insufficient to retire the bonds and to pay the expenses of the system, the City is contractually liable for its pro-rata share of the deficiency.

As of June 30, 2006, the County of Monroe has one outstanding bond issue, proceeds of which have been used to construct the South County Water System. The City (based on its most current state equalized valuation) is currently liable for 6.3304% of any debt retirement requirements that the South County Water System cannot meet.

2004 KME Pumper Truck Loan Payable - On April 16, 2004, the City entered into a purchase agreement with National City Bank for the purchase of a 2004 KME pumper fire truck. The total purchase price was \$333,815. The loan terms included a principal payment of \$82,500 at closing followed by three (3) equal principal and interest payments of \$87,251 due annually commencing August 16, 2004. The interest rate is 3.08%. The City is financing this loan through a voted tax millage.

Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

The annual requirements to pay principal and interest on the long-term debt outstanding at June 30, 2006 are as follows:

| <u>Fiscal Years</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>    |
|---------------------|------------------|-----------------|-----------------|
| 2007                | <u>\$94,437</u>  | <u>\$2,894</u>  | <u>\$97,331</u> |

## CITY OF LUNA PIER

### *Notes to Financial Statements Year Ended June 30, 2006*

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#### Note 9      Property Taxes

The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

The taxable valuation for both real and personal property as of December 31, 2004, amounted to \$91,733,379 which was based on a percentage of the fair market value of the assessed property. The 2005 tax roll consisted of the following:

|       | <u>General<br/>Operating</u> | <u>Fire<br/>Millage<br/>Fund</u> | <u>Flood Control<br/>Facilities<br/>Fund</u> | <u>Totals</u> |
|-------|------------------------------|----------------------------------|--|---------------|
| Mills | 9.8304                       | 0.9859                           | 0.9859                                       | 11.8022       |
| Levy  | \$901,771                    | \$90,435                         | \$90,435                                     | \$1,082,641   |

Included within the boundaries of the City of Luna Pier is a Consumers Power Company electric utility plant. A breakdown of the 2005 levy between the Consumers Power Company and other property is as follows:

|                         |                    |
|-------------------------|--------------------|
| Consumers Power Company | \$ 688,891         |
| Other                   | <u>393,750</u>     |
|                         | <u>\$1,082,641</u> |

#### Note 10      Sewer Use Charge

Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, and Ordinance No. 175 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System based on unit factors. The Ordinance requires a charge of \$175 per unit as of June 30 each year. For these statements, on a fiscal year basis, the June 30, 2006 billing was recognized as revenue.

#### Note 11      Employee's Pension Plan Plan Description

The City of Luna Pier is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees are eligible to participate in the system. Benefits vest after 10 years of service. Covered employees are eligible to retire at age 60 with 10 or more years of credited service or age 55 with 15 or more years of credited service or age 50 with 25 or more years of credited service. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's three-year final average compensation. The retirement allowance is reduced ½ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

# CITY OF LUNA PIER

## Notes to Financial Statements Year Ended June 30, 2006

### Note 11 Employee's Pension Plan (Concluded)

#### Plan Description (Concluded)

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.

#### Funding Policy

All full-time employees contribute 5% of their salary to the plan which amounted to \$13,186 for the fiscal year ending June 30, 2006. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$27,786 for the fiscal year ending June 30, 2006 (9.68% of covered payroll). The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

#### Annual Pension Cost

For the fiscal year ending June 30, 2006, the City's annual pension cost of \$27,785 for the plan was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions include (a) 8.0% investment rate of return, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.16%, depending on age, attributable to seniority/merit and, (d) assumptions that benefits will increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

#### Three-year Trend Information

| <u>Fiscal Year</u><br><u>Ending</u> | <u>Annual</u><br><u>Pension Cost</u> | <u>Percentage of</u><br><u>Annual Pension</u><br><u>Cost Contributed</u> | <u>Net Pension</u><br><u>Obligation</u> |
|-------------------------------------|--------------------------------------|--|---|
| 6/30/04                             | \$27,688                             | 100%   | \$ -                                    |
| 6/30/05                             | 41,709                               | 100%   | -                                       |
| 6/30/06                             | 27,785                               | 100%   | -                                       |

#### Valuation Ended December 31,

|   | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| Actuarial value of assets                         | \$2,537,930 | \$2,670,015 | \$2,603,041 |
| Actuarial accrued liability<br>(entry age)        | 3,038,973   | 3,722,576   | 3,936,371   |
| Unfunded AAL                                      | (501,043)   | (1,052,561) | (1,333,330) |
| Funded ratio                                      | 84%         | 72%         | 66%         |
| Annual payroll                                    | 496,253     | 335,927     | 240,539     |
| UAAL as a percentage of annual<br>covered payroll | 101%        | 313%        | 554%        |



## CITY OF LUNA PIER

### *Notes to Financial Statements* *Year Ended June 30, 2006*

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Note 12      Contingent Liability

The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

Note 13      Lake Front Sewer Projects

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle Township which specified that the City of Luna Pier will provide the capacity for treatment of the City's wastewater at the City of Luna Pier Wastewater Treatment Plant. Under the agreement, LaSalle Township is responsible for the financing and construction of a portion of the expansion to the present system. As of June 30, 1991, the expansion of the system had been completed. The City of Luna Pier is responsible for the operation and maintenance of the system and LaSalle Township is liable for a minimum annual usage charge of \$49,266. The City received a grant from the Environmental Protection Agency for \$1,190,300, which covered approximately 55% of the eligible costs relating to the expansion of the present system and the sewer lines in LaSalle Township. Total costs of the project were approximately \$2,907,703, with the City of Luna Pier contributing \$130,000. Costs relating to the expansion of Luna Pier's system amounted to \$1,378,251.

Note 14      Health Care and Life Insurance

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's full time employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$252,906 for the year ended June 30, 2006. \$154,205 of this yearly expense was for premiums for thirteen retirees.

Note 15      Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

Note 16      Joint Venture

The South County Water System is a joint venture with the County of Monroe and four municipalities: LaSalle Township, Bedford Township, Erie Township, and the City of Luna Pier. However, the municipalities do not have an equity interest in this joint venture. The City of Luna Pier and the other three municipalities entered into a contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$1,400,000 bond issue dated July 1, 1995. The bond proceeds were used for renovations and improvements to the South County Water System. The City of Luna Pier and the other three municipalities entered into another contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$4,400,000 bond issue dated October 1, 2005. The bond proceeds were used to acquire and construct improvements to the South County Water System, and \$280,000 of the bond issue was used to redeem the balance of the 1995 bond issue dated July 1, 1995. Each municipality is obligated for their share of the obligation based on the assessed property valuations which are computed annually. Currently, the South County Water System provides the debt retirement requirements on the \$4,400,000 bond issue which are paid from the system's revenues.

## CITY OF LUNA PIER

### *Notes to Financial Statements* *Year Ended June 30, 2006*

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Note 16     Joint Venture (Concluded)

As of June 30, 2006, the City of Luna Pier's obligation for this bond issue is 6.3304%. The following is the financial information of the joint venture, obtained from the Monroe County Drain Commissioner, County Agency financial report as of December 31, 2005:

|                                   |              |
|-----------------------------------|--------------|
| Total assets                      | \$31,027,784 |
| Total liabilities                 | 5,309,609    |
| Total net assets                  | 25,718,175   |
| Total revenues                    | 4,652,354    |
| Total expenses                    | 3,139,623    |
| Total increase in system equity   | 1,512,731    |
| Current portion of long-term debt | 100,000      |
| Long-term debt (net of discounts) | 4,257,550    |

**CITY OF LUNA PIER**

*General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|                               | Budgeted Amounts |                |                | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|-------------------------------|------------------|----------------|----------------|---|
|                               | Original         | Final          | Actual         |   |
| <b>Revenues</b>               |                  |                |                |   |
| Taxes:                        |                  |                |                |   |
| Property taxes                | \$902,246        | \$902,246      | \$898,468      | (\$3,778)   |
| Payment in lieu of taxes      | 5,000            | 5,000          | 9,752          | 4,752   |
| Penalties and interest        | 600              | 600            | 3,825          | 3,225   |
|                               | <u>907,846</u>   | <u>907,846</u> | <u>912,045</u> | <u>4,199</u>  |
| Licenses and permits:         |                  |                |                |   |
| Building permits              | 10,000           | 10,000         | 11,244         | 1,244   |
| Plan review fee               | 100              | 100            | 60             | (40)  |
| Plumbing permits              | 1,000            | 1,000          | 2,420          | 1,420   |
| Parking and launching permits | 1,900            | 1,900          | 4,870          | 2,970   |
| Parking - Pay and Display     | 0                | 0              | 1,302          | 1,302   |
| Electrical permits            | 4,000            | 4,000          | 5,186          | 1,186   |
| Mechanical permits            | 2,600            | 2,600          | 5,005          | 2,405   |
| Other                         | 1,100            | 1,100          | 0              | (1,100)   |
|                               | <u>20,700</u>    | <u>20,700</u>  | <u>30,087</u>  | <u>9,387</u>  |
| Federal grants:               |                  |                |                |   |
| FEMA grant - fire department  | 29,374           | 29,374         | 0              | (29,374)  |
| Homeland security grant       | 0                | 0              | 2,338          | 2,338   |
|                               | <u>29,374</u>    | <u>29,374</u>  | <u>2,338</u>   | <u>(27,036)</u>   |
| State grants:                 |                  |                |                |   |
| State shared revenue          | 130,800          | 130,800        | 128,942        | (1,858)   |
| Liquor license fees           | 830              | 830            | 844            | 14  |
| Police grants                 | 100              | 100            | 10,632         | 10,532  |
|                               | <u>131,730</u>   | <u>131,730</u> | <u>140,418</u> | <u>8,688</u>  |
| Local grant:                  |                  |                |                |   |
| County of Monroe grant        | 0                | 0              | 32,041         | 32,041  |
| Charges for services:         |                  |                |                |   |
| Tax administration fee        | 20,000           | 20,000         | 25,150         | 5,150   |
| Cablevision fee               | 4,000            | 4,000          | 4,788          | 788   |
| Bed tax - Super 8             | 7,000            | 7,000          | 6,050          | (950)   |
| Fringe benefit recovery       | 6,525            | 6,525          | 2,777          | (3,748)   |
|                               | <u>37,525</u>    | <u>37,525</u>  | <u>38,765</u>  | <u>1,240</u>  |
| Fines and forfeits            | 5,000            | 5,000          | 4,786          | (214)   |
| Interest income               | 3,000            | 3,000          | 33,870         | 30,870  |

# CITY OF LUNA PIER

## General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2006

|                                | Budgeted Amounts |                | Actual         | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--------------------------------|------------------|----------------|----------------|---|
|                                | Original         | Final          |                |   |
| <b>Revenues(Concluded)</b>     |                  |                |                |   |
| Rentals:                       |                  |                |                |   |
| Equipment rental               | \$36,200         | \$36,200       | \$20,782       | (\$15,418)  |
| Building rental                | 8,000            | 8,000          | 7,750          | (250)   |
| Bath house rental              | 1,175            | 1,175          | 850            | (325)   |
| City hall rental               | 3,000            | 3,000          | 2,400          | (600)   |
| Building Lease                 | 0                | 0              | 10,000         | 10,000  |
| AT&T tower land lease          | 9,000            | 9,000          | 10,200         | 1,200   |
|                                | <u>57,375</u>    | <u>57,375</u>  | <u>51,982</u>  | <u>(5,393)</u>  |
| Other revenue:                 |                  |                |                |   |
| Donations                      | 4,100            | 4,100          | 3,410          | (690)   |
| Sale of Land - Industrial Park | 100,000          | 100,000        | 104,292        | 4,292   |
| Sale of Property               | 434,350          | 434,350        | 48,185         | (386,165)   |
| Other revenue                  | 20,400           | 20,400         | 14,193         | (6,207)   |
|                                | <u>558,850</u>   | <u>558,850</u> | <u>170,080</u> | <u>(388,770)</u>  |
| <br>Total Revenues             | <br>1,751,400    | <br>1,751,400  | <br>1,416,412  | <br>(334,988)   |
| <br><b>Expenditures</b>        |                  |                |                |   |
| Legislative:                   |                  |                |                |   |
| Council                        | 5,000            | 5,000          | 5,191          | (191)   |
| General government:            |                  |                |                |   |
| Mayor                          | 6,050            | 6,280          | 6,735          | (455)   |
| City administrator             | 30,643           | 30,643         | 28,473         | 2,170   |
| Election                       | 4,400            | 4,400          | 2,309          | 2,091   |
| Audit                          | 8,600            | 8,600          | 7,950          | 650   |
| Assessor                       | 24,000           | 24,000         | 21,447         | 2,553   |
| Attorney                       | 12,740           | 21,740         | 21,382         | 358   |
| Clerk                          | 36,300           | 36,300         | 36,202         | 98  |
| Board of review                | 1,250            | 1,250          | 1,012          | 238   |
| Treasurer                      | 27,170           | 27,170         | 25,127         | 2,043   |
| City hall and grounds          | 18,000           | 19,200         | 19,438         | (238)   |
| Industrial park                | 1,500            | 1,500          | 113            | 1,387   |
| Other                          | 10,200           | 25,489         | 25,434         | 55  |
|                                | <u>180,853</u>   | <u>206,572</u> | <u>195,622</u> | <u>10,950</u>   |
| Public safety:                 |                  |                |                |   |
| Police department              | 184,499          | 184,499        | 174,385        | 10,114  |
| Fire department                | 54,350           | 54,350         | 59,045         | (4,695)   |
| Building inspection            | 31,602           | 40,602         | 40,399         | 203   |
| Urban planning                 | 5,400            | 5,400          | 5,400          | 0   |
|                                | <u>275,851</u>   | <u>284,851</u> | <u>279,229</u> | <u>5,622</u>  |

**CITY OF LUNA PIER**

*General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|  | Budgeted Amounts           |                            |                             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|----------------------------|----------------------------|-----------------------------|---|
|  | Original                   | Final                      | Actual                      |   |
| <b>Expenditures(Concluded)</b>                           |                            |                            |                             |   |
| Public works:  |                            |                            |                             |   |
| Public works   | \$98,386                   | \$98,386                   | \$71,987                    | \$26,399  |
| Streetlights   | 26,500                     | 26,500                     | 26,542                      | (42)  |
| Refuse collection  | 59,000                     | 59,000                     | 58,802                      | 198   |
| Water department   | 300                        | 300                        | 225                         | 75  |
|  | <u>184,186</u>             | <u>184,186</u>             | <u>157,556</u>              | <u>26,630</u>   |
| Recreation and cultural:                                 |                            |                            |                             |   |
| Recreation   | 17,600                     | 23,600                     | 23,078                      | 522   |
| Water tower park   | 10,700                     | 10,700                     | 10,089                      | 611   |
| Library  | 5,200                      | 5,200                      | 3,884                       | 1,316   |
|  | <u>33,500</u>              | <u>39,500</u>              | <u>37,051</u>               | <u>2,449</u>  |
| Other:   |                            |                            |                             |   |
| Insurance and bonds                                      | 73,000                     | 73,250                     | 72,521                      | 729   |
| Hospital and dental insurance                            | 231,000                    | 252,000                    | 229,988                     | 22,012  |
| Life insurance   | 4,250                      | 4,250                      | 3,502                       | 748   |
| Pension  | 20,000                     | 20,000                     | 19,022                      | 978   |
| Social security  | 26,000                     | 26,600                     | 28,561                      | (1,961)   |
| Unemployment and buy out                                 | 1,000                      | 1,000                      | 0                           | 1,000   |
| Workers compensation                                     | 6,000                      | 6,050                      | 6,043                       | 7   |
| Grand pump   | 7,500                      | (9,839)                    | 1,074                       | (10,913)  |
| Engineering  | 2,000                      | 2,000                      | 1,000                       | 1,000   |
| Refunds  | 0                          | 0                          | 16,120                      | (16,120)  |
| Contingencies  | 933,360                    | 870,741                    | 0                           | 870,741   |
|  | <u>1,304,110</u>           | <u>1,246,052</u>           | <u>377,831</u>              | <u>868,221</u>  |
| <br>Total Expenditures                                   | <br><u>1,983,500</u>       | <br><u>1,966,161</u>       | <br><u>1,052,480</u>        | <br><u>913,681</u>                                      |
| <br>Excess (Deficiency) of<br>Revenues Over Expenditures | <br>(232,100)              | <br>(214,761)              | <br>363,932                 | <br>578,693   |
| <br><b>Other Financing Sources (Uses)</b>                |                            |                            |                             |   |
| Operating transfer out                                   | <u>(2,300)</u>             | <u>(2,300)</u>             | <u>(74,431)</u>             | <u>(72,131)</u>   |
| <br><b>Net Change in Fund Balances</b>                   | <br>(234,400)              | <br>(217,061)              | <br>289,501                 | <br>506,562   |
| <br>Fund Balances - Beginning of year                    | <br><u>294,400</u>         | <br><u>294,400</u>         | <br><u>471,473</u>          | <br><u>177,073</u>                                      |
| <br>Fund Balances - End of year                          | <br><u><u>\$60,000</u></u> | <br><u><u>\$77,339</u></u> | <br><u><u>\$760,974</u></u> | <br><u><u>\$683,635</u></u>                             |

**CITY OF LUNA PIER**

*Major Street Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|  | Budgeted Amounts |               | Actual        | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------|---------------|---|
|  | Original         | Final         |               |   |
| <b>Revenues</b>  |                  |               |               |   |
| State grants:  |                  |               |               |   |
| Gas and weight tax                                       | \$59,939         | \$59,939      | \$61,354      | \$1,415   |
| Interest income  | 2,500            | 2,500         | 14,930        | 12,430  |
| <br>Total Revenues                                       | <br>62,439       | <br>62,439    | <br>76,284    | <br>13,845  |
| <b>Expenditures</b>                                      |                  |               |               |   |
| Public works:  |                  |               |               |   |
| Construction   | 80,000           | 80,000        | 3,200         | 76,800  |
| Routine maintenance                                      | 85,950           | 85,950        | 9,838         | 76,112  |
| Traffic services   | 4,875            | 4,875         | 2,457         | 2,418   |
| Winter maintenance                                       | 7,300            | 7,300         | 2,505         | 4,795   |
| Administrative and engineering                           | 2,575            | 2,575         | 2,099         | 476   |
| Contingencies  | 190,391          | 190,391       | 0             | 190,391   |
| <br>Total Expenditures                                   | <br>371,091      | <br>371,091   | <br>20,099    | <br>350,992   |
| <br>Excess (Deficiency) of<br>Revenues Over Expenditures | <br>(308,652)    | <br>(308,652) | <br>56,185    | <br>364,837   |
| <b>Other Financing Sources (Uses)</b>                    |                  |               |               |   |
| Operating transfer out                                   | (14,895)         | (14,895)      | (14,895)      | 0   |
| <br><b>Net Change in Fund Balances</b>                   | <br>(323,547)    | <br>(323,547) | <br>41,290    | <br>364,837   |
| <br>Fund Balances - Beginning of year                    | <br>383,472      | <br>383,472   | <br>383,472   | <br>0   |
| <br>Fund Balances - End of year                          | <br>\$59,925     | <br>\$59,925  | <br>\$424,762 | <br>\$364,837   |

**CITY OF LUNA PIER**

*Local Street Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|  | Budgeted Amounts |               | Actual        | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------|---------------|---|
|  | Original         | Final         |               |   |
| <b>Revenues</b>  |                  |               |               |   |
| State grants:  |                  |               |               |   |
| Gas and weight tax                                       | \$37,000         | \$37,000      | \$37,506      | \$506   |
| Interest income  | 1,500            | 1,500         | 2,574         | 1,074   |
| <br>Total Revenues                                       | <br>38,500       | <br>38,500    | <br>40,080    | <br>1,580   |
| <b>Expenditures</b>                                      |                  |               |               |   |
| Public works:  |                  |               |               |   |
| Construction   | 100,500          | 100,500       | 60,126        | 40,374  |
| Routine maintenance                                      | 83,500           | 83,500        | 96,837        | (13,337)  |
| Traffic services   | 2,825            | 2,825         | 6,348         | (3,523)   |
| Winter maintenance                                       | 13,875           | 13,875        | 3,198         | 10,677  |
| Administrative and engineering                           | 3,300            | 3,300         | 2,971         | 329   |
| Contingencies  | 43,502           | 43,502        | 0             | 43,502  |
| <br>Total Expenditures                                   | <br>247,502      | <br>247,502   | <br>169,480   | <br>78,022  |
| <br>Excess (Deficiency) of<br>Revenues Over Expenditures | <br>(209,002)    | <br>(209,002) | <br>(129,400) | <br>79,602  |
| <b>Other Financing Sources (Uses)</b>                    |                  |               |               |   |
| Operating transfer in                                    | 72,895           | 72,895        | 14,895        | (58,000)  |
| <br><b>Net Change in Fund Balances</b>                   | <br>(136,107)    | <br>(136,107) | <br>(114,505) | <br>21,602  |
| <br>Fund Balances - Beginning of year                    | <br>148,284      | <br>148,284   | <br>148,284   | <br>0   |
| <br>Fund Balances - End of year                          | <br>\$12,177     | <br>\$12,177  | <br>\$33,779  | <br>\$21,602  |

**CITY OF LUNA PIER**

*Special Road Fund*  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Budget and Actual*  
*Year Ended June 30, 2006*

|  | Budgeted Amounts |              | Actual          | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|--------------|-----------------|---|
|  | Original         | Final        |                 |   |
| <b>Revenues</b>                                      |                  |              |                 |   |
| Interest income                                      | \$200            | \$200        | \$822           | \$622   |
| Other revenue  | 25               | 25           | 0               | (25)  |
| Total Revenues                                       | 225              | 225          | 822             | 597   |
| <b>Expenditures</b>                                  |                  |              |                 |   |
| Public works:  |                  |              |                 |   |
| Audit  | 500              | 500          | 500             | 0   |
| Contingencies  | 267              | 267          | 0               | 267   |
| Total Expenditures                                   | 767              | 767          | 500             | 267   |
| Excess (Deficiency) of<br>Revenues Over Expenditures | (542)            | (542)        | 322             | 864   |
| <b>Other Financing Sources (Uses)</b>                |                  |              |                 |   |
| Operating transfer out                               | (58,050)         | (58,050)     | 0               | 58,050  |
| <b>Net Change in Fund Balances</b>                   | (58,592)         | (58,592)     | 322             | 58,914  |
| Fund Balances - Beginning of year                    | 58,825           | 58,825       | 58,825          | 0   |
| Fund Balances - End of year                          | <u>\$233</u>     | <u>\$233</u> | <u>\$59,147</u> | <u>\$58,914</u>   |



**CITY OF LUNA PIER**

*Community Development Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|                                    | Budgeted Amounts |                  | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------|------------------|------------------|------------------|---|
|                                    | Original         | Final            |                  |   |
| <b>Revenues</b>                    |                  |                  |                  |   |
| Interest income:                   |                  |                  |                  |   |
| Investments                        | \$2,000          | \$2,000          | \$6,785          | \$4,785   |
| Loans                              | 1,100            | 1,100            | 807              | (293)   |
| Total Revenues                     | 3,100            | 3,100            | 7,592            | 4,492   |
| <b>Expenditures</b>                |                  |                  |                  |   |
| General government:                |                  |                  |                  |   |
| Administration                     | 14,550           | 14,550           | 9,235            | 5,315   |
| Audit                              | 800              | 800              | 800              | 0   |
| Capital outlay                     | 17,000           | 17,000           | 10,421           | 6,579   |
| Total Expenditures                 | 32,350           | 32,350           | 20,456           | 11,894  |
| <b>Net Change in Fund Balances</b> | (29,250)         | (29,250)         | (12,864)         | 16,386  |
| Fund Balances - Beginning of year  | 229,311          | 229,311          | 309,865          | 80,554  |
| Fund Balances - End of year        | <u>\$200,061</u> | <u>\$200,061</u> | <u>\$297,001</u> | <u>\$96,940</u>   |

# CITY OF LUNA PIER

## Debt Retirement Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2006

|                                    | Budgeted Amounts |          | Actual   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------|------------------|----------|----------|---|
|                                    | Original         | Final    |          |   |
| <b>Revenues</b>                    |                  |          |          |   |
| Charges for services:              |                  |          |          |   |
| Water usage charge                 | \$11,003         | \$11,003 | \$18,260 | \$7,257   |
| Interest income                    | 30               | 30       | 11       | (19)  |
|                                    |                  |          |          |   |
| Total Revenues                     | 11,033           | 11,033   | 18,271   | 7,238   |
| <b>Expenditures</b>                |                  |          |          |   |
| General government:                |                  |          |          |   |
| Audit fees                         | 700              | 700      | 700      | 0   |
| Contingency                        | 3,537            | 3,537    | 0        | 3,537   |
|                                    | 4,237            | 4,237    | 700      | 3,537   |
| Debt service:                      |                  |          |          |   |
| Principal                          | 9,612            | 9,612    | 17,725   | (8,113)   |
| Interest                           | 1,391            | 1,391    | 535      | 856   |
| Fees                               | 200              | 200      | 7        | 193   |
|                                    | 11,203           | 11,203   | 18,267   | (7,064)   |
|                                    |                  |          |          |   |
| Total Expenditures                 | 15,440           | 15,440   | 18,967   | (3,527)   |
| <b>Net Change in Fund Balances</b> | (4,407)          | (4,407)  | (696)    | 3,711   |
| Fund Balances - Beginning of year  | 4,424            | 4,424    | 4,424    | 0   |
| Fund Balances - End of year        | \$17             | \$17     | \$3,728  | \$3,711   |

**CITY OF LUNA PIER**

*Flood Control Facilities Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2006*

|  | Budgeted Amounts |               | Actual        | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------|---------------|---|
|  | Original         | Final         |               |   |
| <b>Revenues</b>                        |                  |               |               |   |
| Property taxes                         |                  |               |               |   |
| Property taxes                         | \$91,769         | \$91,769      | \$90,084      | (\$1,685)   |
| Payment in lieu of taxes               | 500              | 500           | 962           | 462   |
| Penalties and interest                 | 100              | 100           | 343           | 243   |
|  | 92,369           | 92,369        | 91,389        | (980)   |
| Interest income                        | 2,000            | 2,000         | 17,386        | 15,386  |
| <br>Total Revenues                     | <br>94,369       | <br>94,369    | <br>108,775   | <br>14,406  |
| <b>Expenditures</b>                    |                  |               |               |   |
| Public works:                          |                  |               |               |   |
| Dike maintenance                       | 200,000          | 200,000       | 159,809       | 40,191  |
| Emergency maintenance                  | 240,000          | 240,000       | 0             | 240,000   |
| Engineering fees                       | 5,000            | 5,000         | 25,976        | (20,976)  |
| Attorney fees                          | 500              | 500           | 0             | 500   |
| Miscellaneous                          | 500              | 500           | 218           | 282   |
| Contingency                            | 69,719           | 69,719        | 0             | 69,719  |
| <br>Total Expenditures                 | <br>515,719      | <br>515,719   | <br>186,003   | <br>329,716   |
| <br><b>Net Change in Fund Balances</b> | <br>(421,350)    | <br>(421,350) | <br>(77,228)  | <br>344,122   |
| <br>Fund Balances - Beginning of year  | <br>425,876      | <br>425,876   | <br>425,876   | <br>0   |
| <br>Fund Balances - End of year        | <br>\$4,526      | <br>\$4,526   | <br>\$348,648 | <br>\$344,122   |

**CITY OF LUNA PIER**

*Fire Millage Fund*  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Budget and Actual*  
*Year Ended June 30, 2006*

|  | Budgeted Amounts |                | Actual         | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|----------------|----------------|---|
|  | Original         | Final          |                |   |
| <b>Revenues</b>                                      |                  |                |                |   |
| Taxes:   |                  |                |                |   |
| Property taxes                                       | \$91,769         | \$91,769       | \$90,066       | (\$1,703)   |
| Payment in lieu of taxes                             | 600              | 600            | 962            | 362   |
| Penalties and interest                               | 50               | 50             | 390            | 340   |
|  | <u>92,419</u>    | <u>92,419</u>  | <u>91,418</u>  | <u>(1,001)</u>  |
| Interest income                                      | 50               | 50             | 170            | 120   |
|  | <u>92,469</u>    | <u>92,469</u>  | <u>91,588</u>  | <u>(881)</u>  |
| <b>Expenditures</b>                                  |                  |                |                |   |
| Public safety:                                       |                  |                |                |   |
| Fire department:                                     |                  |                |                |   |
| Miscellaneous  | 25               | 25             | 3              | 22  |
|  | <u>25</u>        | <u>25</u>      | <u>3</u>       | <u>22</u>   |
| Debt service:  |                  |                |                |   |
| Principal  | 83,772           | 83,772         | 82,256         | 1,516   |
| Interest   | 3,480            | 3,480          | 4,995          | (1,515)   |
|  | <u>87,252</u>    | <u>87,252</u>  | <u>87,251</u>  | <u>1</u>  |
|  | <u>87,277</u>    | <u>87,277</u>  | <u>87,254</u>  | <u>23</u>   |
| Excess (Deficiency) of<br>Revenues Over Expenditures | 5,192            | 5,192          | 4,334          | (858)   |
| <b>Other Financing Sources(Uses)</b>                 |                  |                |                |   |
| Operating transfer in                                | 2,000            | 2,000          | 0              | (2,000)   |
| <b>Net Changes in Fund Balances</b>                  | 7,192            | 7,192          | 4,334          | (2,858)   |
| Fund Balances - Beginning of year                    | 2,214            | 2,214          | 2,214          | 0   |
| Fund Balances - End of year                          | <u>\$9,406</u>   | <u>\$9,406</u> | <u>\$6,548</u> | <u>(\$2,858)</u>  |

**CITY OF LUNA PIER**

*Tax Collection Agency Fund*  
*Statement of Changes in Assets and Liabilities*  
*June 30, 2006*

|                                 | <u>Balance</u><br><u>July 1, 2005</u> | <u>Additions</u>   | <u>Deductions</u>  | <u>Balance</u><br><u>June 30, 2006</u> |
|---------------------------------|---------------------------------------|--------------------|--------------------|--|
| <b>Assets</b>                   |                                       |                    |                    |  |
| Cash                            | <u>\$2,152</u>                        | <u>\$4,279,450</u> | <u>\$4,280,162</u> | <u>\$1,440</u>                         |
| <b>Liabilities</b>              |                                       |                    |                    |  |
| Due to other taxing units       | \$1,000                               | \$1,206,215        | \$1,205,775        | \$1,440                                |
| Due to other governmental units | <u>1,152</u>                          | <u>3,073,235</u>   | <u>3,074,387</u>   | <u>0</u>                               |
| Total Liabilities               | <u>\$2,152</u>                        | <u>\$4,279,450</u> | <u>\$4,280,162</u> | <u>\$1,440</u>                         |

**CITY OF LUNA PIER**

*Waste Water Treatment Plant Fund  
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Years Ended June 30, 2006 and 2005*

|  | 2006               | 2005               |
|--|--------------------|--------------------|
| <b>Operating Revenues</b>                |                    |                    |
| Charges for services:                    |                    |                    |
| Sewer use charge - Luna Pier             | \$134,916          | \$133,298          |
| Sewer use charge - LaSalle Township      | 51,220             | 51,279             |
| User fees - Mason School                 | 2,400              | 2,400              |
|  | <u>188,536</u>     | <u>186,977</u>     |
| Other revenue                            | 2,597              | 0                  |
| Permits                                  | 2,240              | 10,370             |
| Penalties                                | 1,411              | 327                |
|  | <u>194,784</u>     | <u>197,674</u>     |
| <b>Operating Expenses</b>                |                    |                    |
| Sewer processing and maintenance:        |                    |                    |
| Salaries                                 | 84,513             | 73,472             |
| Payroll taxes                            | 6,465              | 5,621              |
| Workers compensation                     | 3,045              | 2,205              |
| Pension                                  | 8,764              | 7,156              |
| Hospitalization insurance                | 22,918             | 20,742             |
| Life Insurance                           | 671                | 894                |
| Insurance                                | 13,984             | 13,479             |
| Supplies and chemicals                   | 35,368             | 33,983             |
| Contracted services                      | 46,122             | 51,166             |
| Utilities and telephone                  | 22,565             | 23,753             |
| Maintenance                              | 6,877              | 8,313              |
| Schooling                                | 1,022              | 590                |
| Miscellaneous                            | 1,503              | 3,167              |
| Depreciation                             | 66,154             | 60,961             |
|  | <u>319,971</u>     | <u>305,502</u>     |
| Administration:                          |                    |                    |
| Salaries                                 | 2,512              | 3,117              |
| Fringe benefits                          | 628                | 779                |
| Audit fees                               | 1,700              | 1,700              |
|  | <u>4,840</u>       | <u>5,596</u>       |
| Total Operating Expenses                 | <u>324,811</u>     | <u>311,098</u>     |
| Net Operating Income (Loss)              | (130,027)          | (113,424)          |
| <b>Non-Operating Revenues (Expenses)</b> |                    |                    |
| Interest income                          | 1,501              | 1,490              |
| Total Non-Operating Revenues (Expenses)  | <u>1,501</u>       | <u>1,490</u>       |
| Net Income (Loss) Before Transfers       | (128,526)          | (111,934)          |
| Transfers in                             | 74,431             | 67,852             |
| <b>Change in Net Assets</b>              | (54,095)           | (44,082)           |
| Net Assets - Beginning of year           | 2,115,156          | 2,159,238          |
| Net Assets - End of year                 | <u>\$2,061,061</u> | <u>\$2,115,156</u> |



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Mayor and City Council  
City of Luna Pier  
Monroe County, Michigan

Report of Comments and Recommendations

Our audit of the financial statements of the City of Luna Pier for the fiscal year ended June 30, 2006, was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry and confirmation, that we determine that existing internal control, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the City. During the course of our audit, we noted certain practices and procedures which we believe could be changed to improve existing internal controls, accounting procedures and records, and other matters.

Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our audit and therefore do not encompass all matters that might result from special studies directed toward such matters.

Waste Water Treatment Plant (WWTP) Expenses

Presently there are many expenses of the WWTP that are paid out of the General Fund with the idea that the WWTP will reimburse the General Fund or the General Fund will eventually contribute these costs to the WWTP. We understand that the City is attempting to move to a more self-sufficient WWTP and eliminate this General Fund contribution. To the extent possible, we suggest that the City pay the WWTP expenses directly out of the WWTP accounts. When it is not possible to do so, we suggest that the due to/due from between the General Fund and WWTP be reconciled monthly and paid at least quarterly.

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,

September 26, 2006